

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 IO-13 ISO-00 AID-05 CIAE-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PRS-01 PA-02 EA-09 /128 W

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FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 9188

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

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DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A

TAGS: ECON. UK

SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD DECEMBER 30 -
JANUARY 5, 1977

SUMMARY: THE PRIME MINISTER, THE CHANCELLOR OF THE EX-
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CHEQUER AND JACK JONES IN NEW YEAR'S SPEECHES FORESAW

ECONOMIC DIFFICULTIES BUT NET ADVANCES THROUGH 1977, "THE

YEAR OF THE BEAVER." GILT SALES CONTINUED TO BE STRONG.

BUSINESS CONFIDENCE AS SURVEYED BY THE FINANCIAL TIMES DE-

CLINED IN DECEMBER. THE CONFEDERATION OF BRITISH INDUS-

TRIES WILL PRESENT PROPOSALS TO THE GOVERNMENT WITHIN THE

NEXT TWO WEEKS TO CREATE A PHASE III INCOMES POLICY EM-

PHASIZING INCENTIVE REWARDS. THE MINIMUM LENDING RATE REMAINED AT 14-1/4 PERCENT BY AN EXTREMELY THIN MARGIN. END SUMMARY.

1. NEW YEAR MESSAGES -- THE YEAR OF THE BEAVER.

THE PRIME MINISTER. MR. CALLAGHAN SPOKE OF 1977 AS A YEAR IN WHICH BRITAIN BEGINS TO FIND HERSELF AGAIN. HE SAID THAT THE CONDITIONS WERE APPROPRIATE FOR INDUSTRY TO INVEST. INTEREST RATES WOULD DECLINE AND STERLING WOULD REMAIN COMPETITIVE "FOR A VERY LONG TIME." BRITAIN'S BALANCE OF PAYMENTS WOULD ATTAIN SURPLUS BY YEAR END. HE PLACED HEAVY RESPONSIBILITY ON THE U.S., WEST GERMANY AND JAPAN TO REFLATE FOR THE GOOD OF THE WEAKER ECONOMIES.

CHANCELLOR OF THE EXCHEQUER. IN HIS ANNUAL NEW YEAR MESSAGE, CHANCELLOR HEALEY SAID THAT BRITAIN ENTERS 1977 HAVING TAKEN THE MEASURES NEEDED TO CREATE A "FIRM FINANCIAL AND MONETARY FOUNDATION FOR SUSTAINABLE GROWTH." HE ANTICIPATED A YEAR OF FALLING INTEREST RATES MADE POSSIBLE BY REDUCED PUBLIC SPENDING AND LOWER PUBLIC BORROWING. WHILE ACKNOWLEDGING AN IMMEDIATE PROSPECT OF HIGHER UNEMPLOYMENT AND LITTLE CHANCE OF A REDUCTION IN THE RATE OF INFLATION BEFORE MID-YEAR, MR. HEALEY TALKED OF HIS HOPE THAT BETTER FINANCIAL INCENTIVES COULD BE PUT IN PLACE TO IMPROVE INDUSTRIAL PERFORMANCE AND HELD OUT THE POSSIBILITY OF INCOME TAX CUTS AT BOTH EXTREMES OF THE INCOME SCALE IN THE APRIL BUDGET. SUCH TAX RELIEF WAS CAREFULLY TIED TO A SATISFACTORY THIRD ROUND OF WAGE RESTRAINING.

JACK JONES. TRANSPORT AND GENERAL WORKERS UNION CHIEF, JACK JONES, URGED THAT 1977 BE "THE YEAR OF THE UNCLASSIFIED

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BEAVER" AND CALLED ON INDUSTRY TO INCREASE INVESTMENT, EXPAND OUTPUT AND RAISE PRODUCTIVITY. JONES, WHO OUTPOLLED THE PRIME MINISTER BY OVER 2 TO 1 IN A RECENT GALLUP POLL AS THE MOST POWERFUL FIGURE IN BRITAIN. ALSO SAID "TRADE UNIONISTS BELIEVE THE GOVERNMENT HAS DONE MORE THAN ENOUGH TO WARRANT THE SUPPORT OF ALL SECTIONS OF THE COMMUNITY IN THE LONG HAUL AHEAD."

2. GILT SALES CONTINUED ACTIVELY INTO THE NEW YEAR. THE GOVERNMENT'S SHORT TAP STOCK, THE 13 PERCENT 1980 OF WHICH 800 MILLION POUNDS WERE OFFERED, WAS EXHAUSTED ON TUESDAY. SUBSEQUENT TO THE CLOSING OF THE SHORT TAP, DEMAND FOR THE LONG TAP. THE 15-1/4 PERCENT 750 MILLION POUND 1996A STRENGTHENED MARKEDLY. THE GOVERNMENT BROKER HAS SUPPLIED AN ESTIMATED 75 - 100 MILLION POUNDS OF THE LONG TAP DURING JANUARY 4 AND 5, IN ADDITION TO THE 150 MILLION

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POUNDS WHICH THE MARKET ESTIMATES WERE TAKEN BY DIRECT
APPLICATION TO HMTREASURY ON DECEMBER 31. THERE IS PER-
CEPTIBLE FOREIGN DEMAND IN THE MARKET, REFLECTING RENEWED
CONFIDENCE IN STERLING AND IN TURN GIVING STERLING A BIT
OF NEW YEAR'S SUPPORT.

3. FINANCIAL TIMES SURVEY.

THE FINANCIAL TIMES MONTHLY SURVEY OF BUSINESS OPIN-
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ION POINTS TO A FURTHER EROSION OF BUSINESS CONFIDENCE IN DECEMBER. NEVERTHELESS THERE ARE FAINT SIGNS OF A FIRMING OF DEMAND AMONG THE RESULTS. FULLY 90 PERCENT OF RESPONDENTS EXPECT EXPORT SALES TO RISE DURING 1977 WHILE THE TREND IN NEW ORDERS HAS REMAINED FAIRLY STABLE SINCE SEPTEMBER. THE SALES OUTLOOK HAS ERODED SOMEWHAT SINCE SEPTEMBER WITH 39 PERCENT OF FIRMS EXPECTING INCREASES OF 5 PERCENT OR MORE AND 54 PERCENT EXPECTING SALES TO REMAIN UNCHANGED OVER THE NEXT YEAR. THE SEPTEMBER FIGURES WERE 42 AND 44 PERCENT RESPECTIVELY. AS A RESULT THE PLURALITY OF RESPONDENTS ANTICIPATE LITTLE CHANGE IN INVENTORIES EITHER OF RAW MATERIALS OR FINISHED GOODS. ON THE SUPPLY SIDE, SHORTAGES OF SKILLED FACTORY STAFF AND RAW MATERIALS WERE CITED BY 26 AND 20 PERCENT OF RESPONDENTS, RESPECTIVELY. THIS IS THE SECOND MONTH RUNNING IN WHICH THESE FACTORS WERE IN THE 20 PERCENT RANGE. THERE IS LITTLE PROSPECT OF ADDITIONAL HIRING OF LABOR DURING THE YEAR. WITH 30 PERCENT OF RESPONDENTS WORKING BELOW TARGET CAPACITY AND ONLY 10 PERCENT ABOVE, IT IS UNDERSTANDABLE THAT A MINORITY OF RESPONDENTS (39 PERCENT) ANTICIPATE AN INCREASE IN THE VOLUME OF NEW INVESTMENT. LABOR COSTS INCREASES OF 0 - 9 PERCENT ARE ANTICIPATED BY ABOUT TWO-THIRDS OF THE SURVEY SAMPLE WITH MEDIAN INCREASE FALLING AT 8.3 PERCENT. UNIT COST INCREASES BETWEEN 5 AND 14 PERCENT ARE EXPECTED BY 63 PERCENT OF RESPONDENTS WITH THE MEDIAN INCREASE FALLING AT 12.6 PERCENT.

4. U.K. FOREIGN EXCHANGE RESERVES FELL \$1,027 MILLION IN DECEMBER, TO \$4,129 MILLION, AFTER REPAYMENT OF \$1,545 MILLION BEING MADE ON THE U.K. STANDBY FACILITY AND LONG TERM DEBT SERVICING OF \$26 MILLION. BORROWING UNDER THE EXCHANGE COVER SCHEME BY NATIONALIZED INDUSTRIES CONTRIBUTED \$102 MILLION TO THE RESERVES IN DECEMBER.

5. LORD WATKINSON, PRESIDENT OF THE CONFEDERATION OF UNCLASSIFIED

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BRITISH INDUSTRIES (CBI) IS REPORTED IN AN INTERVIEW FOR THE FINANCIAL TIMES TO HAVE URGED AN EARLY NEGOTIATION OF THE PHASE III INCOMES POLICY. FOLLOWING MONTHS OF CONVERSATION WITH ITS MEMBERSHIP. THE CBI WILL PRESENT ITS VIEW OF A THREE-PART INCOMES POLICY TO THE GOVERNMENT WITHIN TWO WEEKS. A MAJORITY OF THE MEMBERSHIP "DO NOT WISH TO RETURN TO FREE COLLECTIVE BARGAINING AT THIS TIME," BUT FEEL THAT A MORE FLEXIBLE WAGE POLICY IS NEEDED WITH PARTICULAR ATTENTION BEING GIVEN TO REWARDING INCREASES IN PRODUCTIVITY. THE CBI ENVISIONS THAT THE FIRST PART OF THE INCOMES POLICY WOULD SIMPLY SET A LEVEL OF WAGE INCREASE TO BE GENERALLY PERMISSIBLE, THE SECOND WOULD PERMIT SUB-

STANTIALY HIGHER WAGE INCREASES, "SAY 5 OR 6 PERCENT" TO REFLECT PRODUCTIVITY GAINS, AND THE THIRD WOULD INCREASE TAX INCENTIVES FOR MANAGEMENT AND THE LOWER PAID. LORD WATKINSON DISAVOWED ANY CBI INTEREST IN PARTICIPATING IN THE FIRST, DISTAINING ANY SUPPORT FOR THE SOCIAL CONTRACT HE INDICATED, HOWEVER, THAT THE CBI HAD DONE SOME CONSIDERABLE WORK ON VALUE ADDED MEASUREMENTS SUCH AS THE JAPANESE HAVE EMPLOYED AND WILL BE PLACING THESE IDEAS BEFORE THE TREASURY IN SUPPORT OF CBI'S PARTICIPATION IN THE ENVISIONED SECOND PART. TOUCHING ON PRICE CONTROLS, HE NOTED THAT ALTHOUGH THE CBI MEMBERSHIP WAS OPPOSED TO GOVERNMENT PRICE INTERVENTION, MOST COMPANIES WERE WORKING WITHIN THEIR PERMITTED MARGINS.

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O R 051800Z JAN 77
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6. EXCHANGE RATE AND GOLD

EFFECTIVE

DATE	EXCHANGE RATE (\$)	DEPRECIATION (PERCENT)	GOLD (\$)
12/29	1.7055	44.0	134-3/8
12/30	1.7005	44.2	135-1/8
12/31	1.7020	44.1	134-5/8

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1/3 (1)

1/4 1.7085 44.1 135-7/8

CHANGE 12/28-1/4 UP 0.0180 NARROWED 0.3 UP 2-3/4

7. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTH
12/29	1.85	4.50	7.85
12/30	1.70	4.38	7.75
12/31	1.80	4.32	7.65
1/3 (1)			
1/4	1.72	4.35	7.65

CHANGE 12/28-1/4 NAR. 0.03 NAR. 0.10 NAR. 0.15

(ALL FIGURES IN CENTS)

8. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
12/29	4-5/8	5	5-3/8
12/30	5-1/8	5	5-3/8
12/31	4-7/8	5	5-3/8
1/3 (1)			
1/4	4-7/8	5	5-1.4

CHANGE 12/28-1/4 DOWN 1/8 DOWN 1/8 DOWN 1/8

9. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST

RATE DIFFERENTIAL

DATE	
12/L9	9-1/2
12/30	9-1/2
12/31	9-5/16
1/3 (1)	
1/4	9-5/8

CHANGE 12/28-1/4 WIDENED 9/16

L0. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTH
1/29	15	14-17/32	13-3/4

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1/30 14-31/32 14-5/16 13-25/32

1/31 14-5/8 14-1/8 13-11/16

1/3 (1)

1/4 14-45/64 14-1/16 13-1/2

CHANGE 12/28-1/4 DOWN 27/64 DOWN 9/16 DOWN 7/16

(1) - MARKETS CLOSED.

11. THE MINIMUM LENDING RATE WAS UNCHANGED AT 14-1/4 PERCENT AT THE DECEMBER 31 TREASURY BILL AUCTION. 1526.1 MILLION POUNDS WERE APPLIED FOR AND THE ENTIRE TENDER OF 300 MILLION POUNDS WAS ALLOTTED, THE AVERAGE TREASURY BILL RATE FALLING 0.1006 PERCENT TO 13.5094 PERCENT. THIS WEEK 300 MILLION POUNDS IN TREASURY BILLS WILL BE OFFERED TO REPLACE 400 MILLION POUNDS MATURING.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
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Copy: SINGLE
Sent Date: 05-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
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Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
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From: LONDON
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Litigation Code IDs:
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Litigation History:
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Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
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Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
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Review Event:
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Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3659596
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD DECEMBER 30 - JANUARY 5, L977 SUMMARY: THE PRIME MINISTER, THE CHANCELLOR OF TH
TAGS: ECON, UK
To: TRSY STATE
Type: TE
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Review Markings:
Margaret P. Grafeld
Declassified/Released
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22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009